FOREIGN AGRICULTURAL SERVICE

Statement of A. Ellen Terpstra, Administrator
before the Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies

Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to review the work of the Foreign Agricultural Service (FAS) and to present the President's budget request for FAS programs for fiscal year (FY) 2006.

To help position our agency to meet the challenges of the future, we are going through an intensive self-assessment. Many factors have driven our review. For example, the outbreaks of bovine spongiform encephalopathy (BSE) and, to a lesser extent, avian influenza (AI) have made us keenly aware of the changing nature of the trade issues that we confront on a daily basis. Since the Uruguay Round Agreement on Agriculture, trade disruptions have shifted from tariffs and quotas to a host of more complex issues requiring scientific expertise along with diplomacy. Issues surrounding biotechnology have underscored the need for different skills in order to be effective in negotiating and maintaining market access for our products.

The Administration's strategy of competition for trade liberalization has also greatly affected our work. Last summer, the Doha Development Agenda talks got back on track. We now have a blueprint for completing a final agreement on agriculture that lays out strong principles for liberalizing trade. Putting details to this blueprint is not easy. There will be several critical negotiating sessions in 2005, with a goal to achieve consensus on as many areas as possible by July. We recognize that we have a lot of ground to cover in the negotiations, but we are determined to take advantage of this once-in-a-generation opportunity for fundamental trade reform.

In addition to multilateral negotiations in the World Trade Organization, we are also negotiating several important regional and bilateral agreements. Last year alone, agreements were concluded with Australia, Morocco, Bahrain, five Central American countries and the Dominican Republic. We continue negotiations with Panama, Thailand, three Andean countries, the five members of the Southern African Customs Union, the United Arab Emirates, Oman, and the 34 countries that will be part of the Free Trade Area of the Americas.

We are also working to incorporate the principles of the President's Management Agenda into our strategic and operational plans with the goal of making FAS more results oriented. We are reviewing how we manage our workforce, what we can do to make our programs more accessible electronically, and how we can improve our financial management and performance at all levels of the agency.

Finally, fiscal realities have dictated that we conduct a top-to-bottom organizational review. The combination of rising expenses for our overseas offices as a result of the declining value of the dollar, increased Capital Security Cost Sharing assessments imposed by the Department of State (DOS), and the need to absorb rising salary costs has left us with a significant budget shortfall in FY 2005.

To address this shortfall, we requested and received authority from the Office of Personnel Management for early-outs and buy-outs to reduce staff levels in headquarters. With this action, we have been able to reduce headquarters civil service staff levels by 6 percent. We have also imposed a 50-percent reduction in travel and sharply reduced our promotional activities conducted by FAS overseas staff and other international programs.

Thus, a combination of factors has created an opportunity to take a serious and extensive look at the work of our agency and how we can best meet the needs of our customers. We have consulted with Congress, our stakeholders, other government agencies, and our employees to set a new vision for the agency. We know that FAS needs to change to remain relevant in a dynamic global environment.

As part of our ongoing assessment, we are charting a course for FAS for the next 5 years. If we are successful, we envision that in 2010 FAS will be a leader in developing market priorities and strategies for our most important markets, both from a competitive perspective and from a market potential perspective.

Given our resource constraints we need to define what the agency will look like. We know that the agency's most distinct asset continues to be our overseas presence. Our overseas staff provides invaluable service through their in-depth knowledge of the country, its government, the market for our products, and the competition. As government officials, we have the unique capability to gain access to foreign officials on behalf of American agriculture.

But by 2010, FAS will be a smaller agency, sharply focused on market access and market intelligence. Our offices overseas will be smaller and may be in different locations. Even more than is the case now, offices will cover more than one country, and we will make better use of technology to improve our responsiveness and communications. Market access will be even more technical and scientific in nature than it is today, and market intelligence will be more targeted and forward looking.

FAS will continue to be USDA's lead agency for agricultural trade negotiations. We will focus on non-tariff trade barriers and continue to monitor other countries' compliance with international agreements. To build on our market intelligence and development strengths, we will position our resources strategically to support U.S. trade interests. Our trade capacity building activities will be targeted not only to facilitating trade and economic development, but also to promoting agricultural and food security worldwide.

In keeping with the President's Management Agenda, we are assessing our activities, both overseas and at headquarters, to determine which are inherently governmental and provide the maximum value to our customers. Our country-by-country review has a goal of prioritizing markets and activities and identifying where we can absorb reductions with the least impact. We are looking at market potential, market competition, the ease of doing business, the cost of each office, and appropriate staff levels. It is essential that we continue to work in areas where it is most difficult for our private sector to do business. We expect to announce the results of this review shortly. We are confident that the end result of our organizational review will be better, more effective service to U.S. constituents, our agricultural industry and producers.

Budget Request

Mr. Chairman, as I indicated earlier, FAS continues to experience significant fiscal pressures resulting from the declining value of the dollar abroad and rising staff costs.

However, the levels proposed in the President's budget will allow FAS to maintain current service levels and move toward our 2010 vision without degradation of service provided to our customers.

Our FY 2006 budget proposes a funding level of $152.4 million for FAS and 982 staff years. This is an increase of $11.2 million above the FY 2005 level and represents the funds needed to ensure the agency's continued ability to conduct its activities and provide services to U.S. agriculture.

The budget proposes an increase of $8.8 million for support of FAS overseas offices. The FAS network of 78 overseas offices covering over 130 countries is vulnerable to the vagaries of macro-economic events that are beyond the agency's control. The significantly weakened U.S. dollar and higher International Cooperative Administrative Support Services (ICASS) payments to DOS have caused base costs to increase sharply. Since 2002, the dollar has fallen 9 percent against currencies of our major markets.

Specifically, this increase includes:

- $5.4 million to maintain current services at the 78 FAS offices around the world, including $2.4 million for wage increases for locally employed staff; $900 thousand for higher rents; and $900 thousand for increases in all other in-country expenses including security, repairs, travel, and supplies. Additionally, an increase of $1.2 million will be required to meet higher ICASS payments to DOS.
- $2.7 million for the FY 2006 Capital Security Cost Sharing Program assessment. In FY 2005, DOS implemented a program through which all agencies with an overseas presence in U.S. diplomatic facilities will pay a proportionate share for accelerated construction of new secure, safe, and functional diplomatic facilities. These costs will be allocated annually based on the number of authorized personnel positions. This plan is designed to generate a total of $17.5 billion to fund 150 new facilities over a 14-year period. The FAS assessment is estimated to increase annually in roughly $3 million increments until FY 2009, at which time the annual assessed level will total an estimated $12 million. This level is assumed to remain constant at that point for the following 9 years.
- $650 thousand to support the FAS presence in the soon-to-be constructed embassy in Baghdad, Iraq, after an absence of nearly 20 years. FAS will have the lead on all USDA activities and projects in support of Iraq and its agricultural development. This will entail

the entire range of market development, market access, and market intelligence tools available to FAS and its industry partners.

The budget also includes an increase of $2.4 million to cover higher personnel compensation costs associated with the anticipated FY 2006 pay raise. Pay cost increases are non-discretionary and must be funded. Absorption of these costs in FY 2006 would primarily come from reductions in agency personnel levels that would significantly affect FAS's ability to contribute to USDA's strategic goal of enhancing economic opportunities for agricultural producers.

Export Programs

Mr. Chairman, the FY 2006 budget proposes $6.1 billion for programs designed to promote U.S. agricultural exports, develop long-term markets overseas, and foster economic growth in developing countries.

Export Credit Guarantee Programs

The budget includes a projected overall program level of $4.4 billion for export credit guarantees in FY 2006.

Under these programs, which are administered by FAS in conjunction with FSA, the Commodity Credit Corporation (CCC) provides payment guarantees for the commercial financing of U.S. agricultural exports. As in previous years, the budget estimates reflect actual levels of sales expected to be registered under the programs and include:

- $3.4 billion for the GSM-102 program;
- $5.0 million for the GSM-103 program;
- $1.0 billion for Supplier Credit guarantees; and
- $20.0 million for Facility Financing guarantees.

Market Development Programs

Funded by CCC, FAS administers a number of programs to promote the development, maintenance, and expansion of commercial export markets for U.S. agricultural commodities and products. For FY 2006, the CCC estimates include a total of $173.0 million for the market development programs, $15 million below FY 2005 levels and includes:

- $125.0 million for the Market Access Program;
- $34.5 million for the Foreign Market Development (Cooperator) Program;
- $10.0 million for the Emerging Markets Program;
- $2.5 million for the Quality Samples Program; and
- $2.0 million for the Technical Assistance for Specialty Crops Program.

International Food Assistance

The FY 2006 budget continues the worldwide leadership of the United States in providing international food aid. In this regard, the FY 2006 President's budget includes $1.8 billion for U.S. foreign food aid programs, including $300 million requested in the Foreign Operations Appropriations Bill. Programs funded through the Department of Agriculture include:

- $1.1 billion for P.L. 480 which is expected to support approximately 2.2 million metric tons of commodity assistance. For Title I, the budget supports a program level of $145.0 million, which includes $80 million in new appropriations. The balance will be provided through unobligated carryover balances and projected Maritime Administration reimbursements. The total program level will support approximately 540,000 metric tons of commodity assistance based on current price projections. For Title II donations, the budget provides for a program level of $964 million, which is expected to support 1.7

million metric tons of commodity donations. This includes an appropriation request of $885 million and $79 million in projected Maritime Administration reimbursements. While the FY 2006 appropriation request has been reduced by $300 million from last year's request, an equivalent funding level has been included in the U.S. Agency for International Development's (USAID) disaster assistance account to support emergency food assistance activities. This change will allow food aid commodities to be purchased locally which will allow for a more flexible and timelier response to emergencies. Further, the resultant savings in ocean freight and distribution costs is expected to increase the total amount of commodities that can be procured.

- $137.0 million for CCC-funded Food for Progress. Funding at the proposed level is expected to support 300,000 metric tons of commodity assistance.
- $151.0 million for donations of CCC-owned nonfat dry milk under Section 416(b) authority. Under this authority, surplus commodities that are acquired by CCC in the normal course of its domestic support operations are available for donation through agreements with foreign governments, private voluntary organizations and cooperatives, and the World Food program. For FY 2006, current CCC baseline estimates project a limited supply of surplus nonfat dry milk that could be made available for programming, and the budget assumes that 75,000 metric tons will be programmed.
- $106.0 million for the McGovern-Dole International Food for Education and Child Nutrition Program. This represents an increase of $15 million over the FY 2005 current estimate and includes $100 million in new appropriations and an estimated $6 million in projected reimbursements from the Maritime Administration. Funding at this program level will assist an estimated 2.6 million women and children.

Export Subsidy Programs

FAS administers two export subsidy programs through which payments are made to exporters of U.S. agricultural commodities to enable them to be price competitive in overseas markets where competitor countries are subsidizing sales. The budget includes:

- $28.0 million for the Export Enhancement Program (EEP). World supply and demand conditions have limited EEP programming in recent years, and as such, the FY 2006 budget assumes a continuation of EEP at the FY 2005 level. The 2002 Farm Bill does include the maximum annual EEP program level of $478.0 million allowable under Uruguay Round commitments, which could be utilized should market conditions warrant.
- $52.0 million for the Dairy Export Incentive Program (DEIP), $46.0 million above the FY 2005 estimate of $6.0 million. This estimate reflects the level of subsidy currently required to facilitate export sales consistent with projected U.S. and world market conditions and can change during the programming year as market conditions warrant.

Trade Adjustment Assistance for Farmers

Authorized by the Trade Act of 2002, the Trade Adjustment Assistance for Farmers program authorizes USDA to make payments up to $90.0 million annually to eligible producer groups when the current year's price of an eligible agricultural commodity is less than 80 percent of the national average price for the 5 marketing years preceding the most recent marketing year, and the Secretary determines that imports have contributed importantly to the decline in price.

This concludes my statement, Mr. Chairman. I will be glad to answer any questions.